

## Government Policy and the British Film Industry 1979–90

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This article provides an overview and assessment of British government policy towards film during the years of Margaret Thatcher's Conservative government 1979–90. Its central argument is that this policy failed to achieve its objectives, and that it did so because it sought to impose 'free market' solutions on an industry in which, by virtue of US domination, no free market existed. The results have been a decline in British film production and a domination of the British market by US product. Despite the British government's wish that the industry should 'stand on its own feet', what stability British film production enjoyed during the 1980s was the consequence of a continuing dependence on the state, either directly or, in the case of television, indirectly. There has been some belated recognition by the government of the limitations of its policy, but insufficient changes to it to ensure the long-term viability of British film-making.

Fears for the future of the British film industry have a long history, and date back to at least the 1920s when British film production came close to extinction (Hartog, 1983). They have however re-emerged in the 1990s with a particular intensity. The reasons for this are readily apparent. US films have increasingly dominated British screens (and video outlets), investment in British films has declined drastically and, in 1990, UK feature film production plummeted to its lowest level since 1981 (and well below the levels of production in other European countries such as France, Italy, Germany and Spain). As a result, the British film industry had, according to the British Film Institute's Director Wilf Stevenson (1991: vii), reached 'a state of crisis'. One common explanation for this state of affairs has been the role played by the British government under the leadership of the Conservative Prime Minister Margaret Thatcher (1979–90). According to the Chief Executive of the then Producers' Association, for example, it is 'a matter of fact' that a series of government actions during the 1980s

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was responsible for bringing the film industry 'to its knees' (Woodward, 1990: 25). By conducting an examination of British government policy towards film during the 1980s, I will identify and assess these actions and their consequences for British film production.

Writing shortly before the 1992 British General Election, Terry Iltott (1992: 40) argued that 'the key condition for a revival of British film-making is a coherent policy at government level'. Given that a Conservative administration had then been in office for thirteen years, this would seem to suggest that the Conservatives had failed to provide such a policy. In fact, the Conservatives' policy had been, at least until 1990, entirely 'coherent'. The problem was that it had not worked or had at least failed to achieve the goals which it had been designed to meet. The coherence of the government's film policy, in this respect, derived from its more general economic objectives. Although these did change during the Thatcher years, their general contours nonetheless remained constant: in particular, an unflagging belief in the virtues of the free market, a commitment to the minimization of state intervention in the economy and a corresponding wish to reduce public expenditure and privatize public assets (Gamble, 1988; Whiteley, 1990). As the Films Act was due for renewal in 1980, the impact on the film industry of these economic policies was immediate. Under the previous Labour administrations (1974-9) there had been a growing recognition of the cultural importance of film, and it was generally expected that state support for film would be increased (Dickinson and Street, 1985). With the arrival of the new Conservative administration, however, all such plans were quickly abandoned.

A Board of Trade review of the industry, written shortly after the election of the new government, criticized the proposals on the financing of film contained in the report of the Interim Action Committee (1979), chaired by former Labour Prime Minister Harold Wilson. It questioned the extent of the Committee's proposals in terms of compatibility with 'the government's general policy of reducing public expenditure and the scope of the public sector' and asked what role, if any, the state should have in supporting the film industry (Department of Trade, 1979: 1). A clear response was then provided by the government's only White Paper on film, 'Film Policy', which, in line with 'the government's approach to industry generally', sought to set the film industry

'free' by doing away with 'the paraphernalia of Government intervention' and an 'intrusive regulatory framework' (Department of Trade, 1984: 12, 18). What this meant, in practice, may be seen in relation to the three main planks — or 'props' as the White Paper proposed — of government support for film up to this point: the quota, the Eady levy and the National Film Finance Corporation (NFFC).

#### **Government Support**

The quota dates back to the Cinematograph Films Act of 1927 which, in response to the decline in the number of British films in British cinemas, required distributors and exhibitors to handle a minimum percentage of specifically British films. The government initially extended the life of the quota, but in January 1982 it reduced the 30 percent feature film quota by half, before suspending the quota altogether from 1 January 1983.

A similar philosophy also underpinned the government's abolition of the Eady levy. This was originally devised by the Treasury official Sir Wilfred Eady, and was introduced on a voluntary basis in 1950 before being made compulsory under the Cinematograph Films Act of 1957. Designed to return a proportion of box-office takings to production, it consisted of a levy upon exhibitors' earnings and was administered by the British Film Fund Agency (BFFA). Under the Films Act of 1980 and the Film Levy Finance Act of 1981, the government extended the life of the levy but, in a plan designed to reduce public expenditure, required the BFFA to allocate a proportion of its funds to the NFFC, as well as the BFI and Children's Film Foundation. However, the 1985 Films Act which followed abolished the levy completely. According to the preceding White Paper (Department of Trade, 1984: 11, 12), the levy — like the quota — represented 'an unreasonable burden on the cinema exhibition industry' and had also failed to provide 'an efficient way of encouraging an economic activity that should be essentially oriented towards the market'.

The same reasoning was also applied to the NFFC. Originally designed as a temporary measure to help alleviate the then crisis in British production, the NFFC was established in October 1948 as a specialized bank to make loans in support of British film production and distribution. Subsequent legislation ensured a continuing role for the NFFC, and by the end of the 1970s the NFFC had invested in over 750 British feature films. Largely as a result of

growing financial difficulties, the NFFC's activities during the 1970s had become limited, and between 1972 and 1979 it was involved with only twenty-nine features. However, with the Labour appointment of Mamoun Hassan as the new Managing Director of the NFFC in January 1979, the organization's fortunes looked set to change. The corporation had a statutory duty to make loans on 'a commercially successful basis', but historically had failed to do so. This was because a low level of funds had forced it to adapt to the prevailing methods of raising production finance, whereby it was called upon to provide — in the form of 'end money' — the most precarious proportion of a film's budget. Under the proposed changes it was now expected that not only would the Corporation receive increased funding, but that it would also be encouraged to support less obviously commercial films such as those the NFFC had only recently begun to assist (e.g. *Radio On*, *Babylon*). 'The Corporation's brief', explained its annual report, 'should be to make not only films that appeal to a popular audience, but also films that will feed ideas and invention' (NFFC Annual Report, 1980: 5). Following the general election, however, such plans were to change.

As with the Eady levy, the Conservatives did at first lengthen the life of the Corporation. However, in doing so, they sought not to extend its cultural mandate, but rather to put it on an even more commercial footing than before. Under the 1980 Films Act and the 1981 National Film Finance Corporation Act, it wrote off the Corporation's debts to the government and awarded it a final grant of £1 million. As already indicated, subsequent funding was to be derived from the Eady levy and commercial borrowing. With the decision to abolish the Eady levy, however, the government went one step further and, in effect, sought to 'privatize' the Corporation. This involved the replacement of the NFFC by the British Screen Finance Consortium (subsequently British Screen Finance Limited) which, according to the White Paper (Department of Trade, 1984: 15), was to continue to fulfil 'the positive functions of the NFFC, while at the same time being enhanced by the dynamic of private enterprise'. To encourage private investment in the new company, the government was prepared to provide £7.5 million over a five-year period at the end of which it was expected the company should have become self-supporting. Three private investors — Channel Four, Cannon and Rank — agreed to provide (in the form of loans) £300,000 per annum for five years;

£300,000 per annum for three years; and £250,000 per annum for three years respectively. Neither Cannon nor Rank renewed their commitment after the initial three-year period. Granada then agreed to provide £750,000 over a two-year period in 1989, but it did not renew its commitment either. Only Channel Four continued with its investment.

In assessing these measures, it would be wrong to regard them as simply misguided and destructive. Thus, in the case of the quota and the Eady levy, it was not their abolition which presented a problem so much as the absence of any suitable alternatives. It was already evident in the 1970s, for example, that the quota was not being enforced and that a number of cinemas, especially independents, were failing to meet their quota of British features. One of the reasons for this was the decline in British feature production, so much so that the number of British quota films registered between 1971 and 1979 fell by more than half — from ninety-eight to forty-eight. If the original purpose of the quota had been to stimulate British film production, the evidence suggested that it was now failing to do so and that its objective might be better fulfilled by other means.

This was also true of the Eady levy which, by the 1980s, represented in real terms, only one-seventh of its original value. Moreover, it had been a recurring criticism of the levy since its inception that its allocation on the basis of box-office success characteristically rewarded those least in need of it. This was clearly demonstrated when the details of the levy's distribution were made public from 1979 onwards, and revealed the extent to which the most commercially successful 'British' films, such as *The Wild Geese*, *Superman*, *Alien* and *Flash Gordon*, accounted for the lion's share of the pay-out. A further shortcoming of the system was that payments were made without regard for merit (however defined) and the Interim Action Committee (1979: 5) in particular complained of the way in which the fund was being used to help the makers of soft porn. Moreover, with the decline in cinema attendances which was a feature of the late 1970s and early 1980s, there was certainly some justice in the exhibitors' claims that the levy was not only an increasingly onerous burden upon them, but it was also an unfair one given the extent to which films were being viewed on television and increasingly on videotape. It was argued that the prices the television companies paid for films had been kept artificially low as a result of their duopoly in

terrestrial broadcasting and certainly were not in proportion to the numbers who viewed them. A much cited example, in this regard, was *Chariots of Fire*. Three-and-a-half million people had paid £7 million in order to see the film at the cinema. When the film was first screened on television it attracted four times this audience, but at a seventh of the cost. Moreover, the sum paid was actually high by television standards and also included more than one showing.

It was for all of these reasons that many accepted the Eady levy should go, but that it should be replaced by a different form of levy either on television or videotape. Indeed, in April 1985, the House of Lords went so far as to vote in support of an amendment to the Films Bill which would have introduced precisely such a change. This was subsequently rejected by the Commons on grounds already outlined in the White Paper. It argued that maintaining the levy, but changing its source, would only be appropriate if it was necessary 'to recycle reasonably substantial sums into British production' (Department of Trade, 1984: 11). It was apparent that the Conservative government did not wish to do so, and it was this unwillingness to find means to support British film-making — rather than the abolition of the Eady levy in itself — which represented the real problem for the production sector of the British film industry.

This unwillingness was also evident in the government's approach to fiscal matters. Following the recommendation of the Interim Action Committee's second report, the Inland Revenue had ruled in 1979 that films could be treated as 'plant' which were eligible for 100 percent capital allowances in the first year. As a result of this ruling, the financing of film production became more attractive to City institutions which, through the operation of leaseback deals, became increasingly involved in the support of British films (including, for example, *Chariots of Fire*, *Educating Rita* and *Local Hero*). Despite this boost to production, the scheme was not allowed to survive. The scheme underwent a number of amendments before the then Chancellor of the Exchequer, Nigel Lawson, announced in 1984 (the same year as the White Paper) that he was abolishing it altogether and that the first-year allowances would be phased out by 1986. Although the White Paper (Department of Trade, 1984: 12) argued that these changes would 'encourage efficiency and enterprise' the evidence indicated otherwise. Investment in film, which had been rising steadily

during the 1980s, fell dramatically from 1986 onwards, falling from £270.1 million to £135.7 million in 1988 and to only £49.6 million in 1989. The fortunes of British film studios (Pinewood, Elstree, Twickenham and Shepperton) also declined accordingly.

The major form of state support for film production to survive, was the annual allocation of £1.5 million to British Screen. Despite the low levels of funds at its disposal, the company, under its first Chief Executive Simon Relph, managed to defy the gloomy forecasts of its early critics. Indeed, in terms of both the quantity and range of films it supported, it actually performed rather better during the 1980s, than its predecessor the NFFC had been able to (operating albeit under inauspicious circumstances). Thus, while the NFFC was involved in only seventeen completed features between 1980 and 1985, British Screen had a stake (in the form of investments and guarantees) in forty-four features in the period 1986–9. However, although British Screen achieved a generally respectable return on its investments and won some notable commercial success (especially in the case of *Scandal*), it did not succeed as a profit-making enterprise and did not become self-supporting by the end of the 1980s as the government had hoped. As a result, Relph negotiated a postponement of loan repayments due to the initial investors in 1989 and, in the same year, the Department of Trade and Industry agreed to provide further funding until the beginning of 1994 (while also commissioning a consultant's report on its performance).

British Screen, in this respect, benefited from the government's apparent reluctance to follow through fully its commitment to the logic of the market-place. Some of this reluctance may have derived from a belated recognition of the almost impossible demands which had been made upon the organization. For while British Screen was required to be run on a commercially successful basis, it was not free to operate as a purely commercial enterprise in so far as it was also obliged to encourage specifically British film production and foster British talent. Moreover, what must also have become apparent was the importance of the role played by British Screen in this respect. In 1984 the White Paper had expected the company's contribution to British film production to be 'modest'. However, its contribution turned out far from modest. By the end of the decade British Screen had become the main source of British production finance, outside television. As a result, it was involved in fourteen out of fifty-six (or 25 percent) of

all British production starts in 1988. Thus, it occupied such a key position within the industry that even a Conservative government must have had reservations about simply abolishing it, particularly as its importance to the industry was, to a large extent, a result of the government's own failure to stimulate the commercial sector of the industry in the way it had promised. Indeed, by the end of the decade the British private sector as a source of investment had all but dried up. According to a report of the British Screen Advisory Council, the purpose of British film legislation had in the past been 'to ease that most intractable problem, production finance' (Fisher, 1989: 1). In repealing this legislation and replacing it with so little, the Conservatives did not find a solution to this problem — they only added to it.

### **UK Production**

A measure of this failure is provided by the speech to the House of Commons of the then 'Films Minister', Norman Lamont, when introducing the Films Bill in November 1984. In it he recorded his confidence in 'the impressive strength of the British film industry' and its capacity to prosper without government assistance. Three companies in particular were cited as 'notable examples' of successful film financing: Thorn-EMI, Goldcrest and Virgin (Hansard, 19 November 1984: Vol. 68, col. 29). However, less than two years later all three companies had withdrawn from production.

Thorn-EMI, along with Rank, was one of the UK's largest film companies, but had never fully recovered from the financially disastrous attempts of EMI to break into the US market (by making films in America) during the late 1970s and early 1980s. In March 1986, the company was sold to the Australian, Alan Bond, and then, only one week later, to Cannon. Cannon, whose financial affairs had been the subject of much speculation, subsequently sold off the studio at Elstree and called a halt to its film production activities in Britain. Cannon was then itself taken over by Giancarlo Piretti's Pathé Communications, before it too faced bankruptcy following its surprise acquisition of MGM/United Artists.

However, perhaps even more dramatic than the decline of Thorn-EMI was the collapse of Goldcrest, which during the 1980s had come to symbolize — where Thorn-EMI had not — the much celebrated 'renaissance' of British film-making. This was particularly the case following the Oscar-winning successes of *Chariots of*



*Fire* in 1981 and *Gandhi* in 1982, two films in which the company had been involved (although, in the case of *Chariots*, nothing like the extent to which it was commonly assumed). Indeed, the government's White Paper had specifically cited these two films as justification for their intention to reduce state support for British film-making. Goldcrest had been founded by the Canadian, Jake Eberts, and had evolved from a small film development company into a major production company responsible for a number of successful features, including not only *Gandhi* but also *The Killing Fields*, *Local Hero*, *The Ploughman's Lunch* and *Another Country*. Following Eberts's departure from the company in 1984 and his replacement by James Lee as Chief Executive, Goldcrest became simultaneously involved in three high-budget projects: *Absolute Beginners*, *Revolution* and *The Mission*. This production programme was, according to Eberts, 'wrong on every level': 'the scripts were not good . . . all the films were too expensive, and . . . too much risk was spread across too few productions' (Eberts and Ilott, 1990: 654). These problems were exacerbated when the films overran their already inflated budgets (in the case of *Revolution* by £4 million), promised equity finance did not materialize and the company was faced with a cash-flow crisis. The films then performed badly at the box-office and between them lost the company over £15 million. Ironically, more modestly budgeted productions such as *Dance With A Stranger* and *Room With A View* with which Goldcrest was involved, were to turn a profit. Although Eberts returned to the company in 1985, his job was basically to clean up the mess so that when Goldcrest was sold in 1987 to Brent Walker, it amounted to little more than a sales and distribution company.

The Goldcrest debacle also had a knock-on effect for the third company cited by Lamont in the Commons: Virgin. Virgin Films had already become more cautious about film investment following the losses it sustained with *1984* (a film Lamont spoke of with approval). However, the company had believed it was on relatively safe ground when it invested, along with Goldcrest, in *Absolute Beginners*. The failure of this film proved to be the last straw, and in October 1986 the company announced its withdrawal from equity financing.

The effects of Goldcrest's collapse were also more widespread. One of the company's successes had been to attract normally reluctant City investors into film production. The failure of the company, however, reminded the City of the risks of film invest-

ment and undermined confidence in the industry as a whole. With capital allowances also removed, it was therefore not surprising that City funding should decline dramatically. Consequently it became virtually impossible, as Ilott observes, 'to raise finance outside the entertainment industry itself' (Eberts and Ilott, 1990: 654). However, by the end of 1986, there was precious little money available from within the film industry either. Of all the companies involved in film financing at the start of the decade, Handmade was almost alone in continuing to provide any substantial level of investment in film production, benefiting in this respect, from the personal fortune of its cofounder, ex-Beatle George Harrison.

One consequence of this lack of British funding was an increasing reliance on US finance. This, however, was not a reliable substitute. The US majors were generally reluctant to invest in indigenous British features, preferring to use Britain as a base for their own productions. The attractiveness of Britain as a film-making location, however, varied according to the exchange rate of the dollar or the availability of local incentives (such as those which the government had removed). During the mid-1980s, British production companies did benefit from a boom in investment from US independent distributors (who enjoyed considerable success with films such as *Room With A View*, *Wish You Were Here* and *My Beautiful Laundrette*). In the face of increasing competition from the majors, however, many of these companies subsequently collapsed or encountered severe financial difficulties. As a result US investment in British productions plummeted from £175.9 million in 1986 to £66.7 million in 1988 (and much of this was in fact investment in British-based productions rather than British films proper). Given the demise of traditional sources of film funding within Britain and the unpredictability of US financing, it was television which was increasingly to become the most stable and significant source of British production finance. Indeed, so important had the relationship between film and television become by the end of the 1980s, that it was common to argue that without TV involvement, there would have been no British film industry remaining (British Screen Advisory Council, 1989). The role of Channel Four, in this respect, has been critical.

#### **Channel Four**

Channel Four was launched on 2 November 1982 as the fourth national television channel. The origins of the channel lie in the

1977 Annan Committee's report on the future of broadcasting and although Labour plans for the channel, as with those for the film industry, were altered by the succeeding Conservative government, these changes — under the old-style Tory Home Secretary William Whitelaw — were not as radical as might have been expected of a government committed to market-oriented, de-regulatory policies. Most importantly, Channel Four was provided with a clear 'public service' remit as well as a secure financial base. Under the Broadcasting Acts of 1980 and 1981, the channel was obliged to appeal to tastes and interests not generally catered for by the existing television services, and to 'encourage innovation and experiment in the form and content of programmes' (Broadcasting Act, 1981: 13). Its programme-making was to be financed by advertising, but indirectly in the form of a subscription paid by the ITV companies as a percentage of their net advertising revenues in return for which they sold and collected the income from Channel Four's own advertising time. This arrangement provided crucial financial protection for the channel in its early years, as it was not until 1987 that Channel Four's advertising revenue exceeded its income from the television companies. The most notable innovation in the context of British broadcasting, however, was that Channel Four, unlike the existing BBC and ITV companies, did not itself operate as a production house, but either purchased or commissioned work from independent production companies, the ITV companies or foreign sources. Thus, for the year ending 31 March 1990, 54 percent of the channel's output was provided by no less than 526 independent production companies.

It is in this context that Channel Four's contribution to the film industry can be understood. Drawing on the example of German television (most notably that of ZDF and WDR), the channel's Chief Executive, Jeremy Isaacs and Senior Commissioning Editor for Fiction, David Rose, embarked upon a major policy of investment in film production, financially supporting feature-length drama on film not just intended for broadcast, but also proper theatrical release. The results of this policy were impressive in terms of the number and range of films with which the channel was involved. With an initial annual budget of £6 million, rising to £11.8 million in 1988/9, the channel had, by the end of the decade, invested in over 150 films. A number of these (e.g. *Remembrance*, *Hero*, *My Beautiful Laundrette*, *Shadey*, *Hidden City*) were initially wholly financed by the channel. However, as production costs rose and

the channel's track record was proven, the company became increasingly involved in coproductions or, in the case of films such as *Mona Lisa* or *Room With A View*, the purchase of television rights only. Moreover, the Channel's success in supporting film was such that it also set an example which other television companies then followed (including the BBC). The result was that the number of films dependent upon television finance rose dramatically, increasing from 4 percent of all UK productions in 1982 to 49 percent by 1989 (Lewis, 1990).

However, while a number of these films have proved surprisingly profitable (as was the case with *My Beautiful Laundrette* and *Room With A View*) the ability of Channel Four to succeed when other sections of the British film industry failed did not derive from any superior financial acumen on its part. On the contrary, the channel's success in film production has, in large measure, depended upon its insulation from purely commercial considerations. Due to the funding of both television generally and Channel Four, in particular, the production of films by and for television does not depend upon direct financial returns as conventional film production does. Consequently Channel Four has not, as Rose observed, made films 'for commercial reasons' (quoted Stanbrook, 1988: 21).<sup>1</sup> Indeed, within Channel Four, film production has enjoyed something of a privileged status because the relatively high percentage of the channel's overall budget (6-7 percent) which Film on Four has received, has not been matched by the number of programme hours or audience ratings which it has provided. The channel, in this respect, has been committed to a 'subsidy' of film production on the grounds of its cultural worth and importance, in a way in which government film policy has not. This has also been true of the channel's Independent Film and Video Department which has not only funded a number of low budget features, but also provided support for the independent workshop sector and the British Film Institute Production Board (which has itself become a small but important source of indigenous production finance).

#### **Film and State**

What this tells us about the government's film policy is significant. When introducing the government's Film Bill to the Commons, Norman Lamont had predicted that the British film industry was on 'the threshold of a strong commercial future' (Hansard, 19

November 1984: Vol. 68, col. 38). In line with the government's general economic policies, this was to be achieved by the reduction of state support for film, resulting in the industry's exposure to the bracing winds of market forces. By the end of the decade it was clear that Lamont's optimism had been misplaced. Far from thriving, the traditional commercial sector of the industry had all but collapsed. Moreover, despite the government's determination that the industry should 'stand on its own feet', it was also apparent that what stability the industry enjoyed was the result of a continuing dependence upon the state — either directly in the form of financial support provided to British Screen (as well as to the British Film Institute Production Fund, the Scottish Film Production Fund, the Arts Councils and Regional Arts Associations) or indirectly through television, and Channel Four in particular, for which — through licence and regulation — the government possessed a statutory responsibility.

That the industry continued to remain dependent upon some kind of state support was not surprising and illustrates one of the major shortcomings of the government's commitment to the virtues of the free market. For as a number of commentators have observed, the general reliance of the government's economic policies on the free play of market forces, does not in itself reverse industrial decline but only reinforces existing market strengths and weaknesses (Leys, 1985; Anderson, 1987). This was particularly evident in the case of the film industry, where state intervention has historically been based upon a recognition that the British film industry did not, and could not, compete on equal terms within the international film market. The withdrawal of government support was not therefore likely to revive the industry, only weaken it further.

The frailty of the British film industry in this respect is the result of the domination of the world market by Hollywood. As is well known, film-making is a particularly high-risk industry. Indeed, to describe even mainstream film production as 'commercial' is in some ways misleading in so far as the majority of films do not, in fact, make money. In the West it is only the Hollywood majors which have succeeded in spreading the financial risks of production in such a way as to make film-making, more or less, consistently profitable. That they have been able to do so is the result of a number of factors: the scale of their production (in terms of quantity and cost); the size of the US home market and

the returns which this provides; the resulting ability to undercut foreign competitors by selling their products at reduced rates abroad; the ability, through control of distribution, to restrict foreign access to the US market; and the ownership or control of an international network of distribution and exhibition interests (see Garnham, 1990).<sup>2</sup> On the basis of these economic advantages, the Hollywood majors are not only in a privileged position to make money out of their films, but also to dominate other national markets. Britain and the United States do not compete on equal terms in this respect and this is reflected in their share of each other's home markets. During the period 1985–9 US films accounted for between 53 and 66 percent of films released in the UK and between 78 and 88 percent of UK box-office revenues. In contrast the UK share of the US market has been estimated to be as low as 1 percent (Lewis, 1990).

### **Changing Structures**

During the 1980s, the conditions for the British film industry to sustain profitability became even more disadvantageous. This was the result of two main trends: the decline of the domestic theatrical market and the divorce of production from distribution and exhibition interests. Since their peak of 1,635 million in 1946, cinema admissions had been steadily declining, reaching an all-time low of 58.4 million in 1984. Although this figure had risen to 94.6 million by the end of the decade, it was still a lower figure than any recorded during the 1970s (when the lowest was 103.5 million in 1977). Although gross box-office levels were in part maintained through increases in ticket prices, it was clear that the returns a British film could expect from the domestic market were considerably lower than in previous decades. This problem was exacerbated by the high market share enjoyed — as already noted — by US films (no longer restricted by quotas). Thus, whereas it was once possible for a British film to recoup its costs on the home market, it was virtually impossible to achieve during the 1980s, even on a low budget. Only a handful of British films achieved a domestic gross of over £1 million between 1987 and 1989, and even a successful film such as *Buster*, which grossed £3.7 million in 1988, would have recovered only a fraction of its £3.2 million cost from British box-office returns (given the small percentage of box-office gross which actually returns to the producer).

Due to this decline in the home market, the UK film industry

was forced to become more dependent on foreign markets (as well as new outlets such as video). As was the case with Thorn-EMI and Goldcrest, this led to a number of attempts to break into the US market by emulating Hollywood-style production. Following the failure of this policy, the pattern of British film production changed substantially as the UK majors abandoned production in favour of distribution and exhibition as well as other non-film interests (as has been the case with Rank). In the wake of the 1927 Cinematograph Films Act, and the establishment of a British film quota, the British film industry moved steadily towards an integration of production, distribution and exhibition interests during the 1930s and 1940s, the result being that two organizations, Rank and ABPC, dominated all aspects of the industry by the end of the Second World War. This led to a modest domestic version of the Hollywood studio system, whereby each company ensured a regular supply of films for its cinemas through production in its own studios, although from the 1950s onwards responsibility for actual production was increasingly devolved onto independent producers. This process of devolution reached its conclusion in the mid-1980s, when the withdrawal of Rank, Thorn-EMI and Cannon from both direct and indirect involvement in production, led to an almost total split in the industry between producers on the one hand and distribution/exhibition interests on the other. This meant that the increasingly risky business of production was left in the hands of independent production companies, who put together projects on an irregular or one-off basis (often involving quite labyrinthine funding arrangements as a result of the absence of any one major source of finance). As a result, no less than 342 production companies were involved in film production during the 1980s and, of these, 250 participated in only one film (many having been specifically set up for this purpose) (Lewis, 1990). Moreover, few of the other ninety-two companies were involved in film production on an ongoing basis, and only five of these were involved in more than ten films (Handmade, Goldcrest, Enigma, Zenith and the now bankrupt Palace).

This growth in the independent sector is, of course, linked to similar, more general developments in the media and illustrates the way in which media production has been increasingly re-structured during the 1980s along what has been characterized as more flexible, 'post-Fordist' lines (Harvey, 1989; Storper and Christopherson, 1987).<sup>3</sup> However, the diversification of activity

which this process represents has largely been confined to production (see Aksoy and Robins, 1992). Distribution and exhibition interests have remained concentrated, and in 1983 the Monopolies and Mergers Commission found against both Rank and EMI, and their aligned distributors, which they estimated controlled some 60 percent of the film exhibition market and an even greater share of the film distribution market in Britain. Despite its commitment to the free market, the government was reluctant to take remedial action, especially as it was dependent upon the goodwill of Rank and EMI in the establishment of British Screen. It was therefore another six years before the Monopolies Commission took even the modest step of outlawing arrangements between distributors and exhibitors for multiple exclusive film presentations.<sup>4</sup> In the meantime, the duopoly had extended its control of exhibition even further so that when Cannon took over the ABC chain (as part of its acquisition of Thorn-EMI), the two leading companies accounted for two-thirds of all UK box-office revenue. This control was subsequently weakened by the opening of multiplex cinemas, mainly by US exhibitors, in the latter half of the 1980s. However, MGM Cinemas (following MGM Pathé's acquisition of Cannon) and Rank still dominated British exhibition at the end of the decade when, between them, they accounted for over 54 percent of all UK admissions, only 6 percent less than when the Monopolies Commission had reported. Distribution, as in 1983, was even more concentrated with the two main US distributors, UIP and Warners, accounting for over two-thirds of theatrical revenue in 1989 (*Cultural Trends* 13, 1992: 65).

This continuing concentration of interests in exhibition and distribution at a time when the UK majors had withdrawn from production, inevitably added to the problems of film producers. British films now lacked the security of a guaranteed outlet which a vertically integrated industry had once provided and, due to the alignments of the major exhibitors with the major US distributors, often had to compete on unfavourable terms for a circuit release. The result, as Simon Relph (1990: 5) the former Chief Executive of British Screen explains, was that while 'big budget popular British films' generally had ready access to the main circuits, 'cheaper films with a smaller but still clearly identifiable audience' — in effect the bulk of British films — had 'difficulty in getting sufficient access to the market place' and, of course, the opportunities for generating revenue which the main circuits provide.



Hence, even such successful films as *My Beautiful Laundrette* and *Letter to Brezhnev* were turned down by both Rank and EMI. Moreover, as Relph also observes, while the UK majors may have dropped out of production, the 'internal pricing structures' which had been a feature of a vertically integrated industry remained. These arrangements had been designed to accelerate returns from exhibition and distribution rather than production. Hence, when the UK majors left production they were able to hold onto the most profitable sector of the film business, while pushing the greater financial risks onto the producer and production financier. This is reflected in both the high fees charged by distributors (around 30 percent of gross rentals) and the low proportion of revenues returned to producers which make it possible for both exhibitors and distributors to profit from a film on which the producer makes a loss. Thus, it is easy to see how the British film industry of the 1980s became dependent upon television and what state support remained. The shrinkage of the domestic theatrical market, combined with the withdrawal of the UK majors from production, created a crisis in the provision of production finance which only television and semi-state bodies have been able to overcome with any reliability. This reliability has derived from their relative insulation from the demands of the strict commercial environment, which has made other financial sources — US independent distributors, video and satellite companies — so vulnerable. Thus, while the UK video market (both rental and retail) is now larger than the theatrical market, it is dominated by US material and the return to the British film industry, in the form of either revenue or reinvestment in production, has been small (Smedley and Woodward, 1991). The Parkfield Group did successfully invest in *The Krays*, but its collapse in July 1990 has deterred other video companies from following its example. Similarly, the merger of British Satellite Broadcasting (BSB) with Sky in 1991 (one year after its launch) brought its programme of investment in British film production to a halt.

#### **Downing Street Seminar**

The crisis which arose from these developments finally attracted government attention. Indeed, in June 1990, amid a great deal of publicity, Margaret Thatcher herself chaired a one-day seminar at Downing Street on the future of the British film industry. She was apparently sympathetic to the case put to her, and as a result of the

meeting a number of promises were made: financial support for European coproduction; a commitment to Media 92 (now 95), the audiovisual programme of the European Community; a review of policies designed to stimulate overseas investment in UK film production, and to market and promote British films abroad; and, finally, the establishment of two working parties on the structure of the industry and related fiscal matters. However, after Thatcher's replacement as Prime Minister by John Major in the following November, the momentum for change slowed and many of the proposals which had emerged from the Downing Street seminar were delayed, amended or abandoned altogether.

This seemed to reflect an uncertainty on the part of the government about how best to proceed with film policy. On the one hand, there was a belated recognition that the government's policies had not worked in the way they were intended while, on the other, there was a continuing reluctance to deviate too greatly from the well-trodden path of 'free market' economics. Thus, while the government was now prepared to countenance some degree of intervention on behalf of the industry, it was only prepared to go so far. A UK Film Commission and European Co-Production Fund were established and, in 1992, the now Chancellor of the Exchequer, Norman Lamont, agreed to a modest measure of accelerated tax relief for film-makers. The cultural aspect of film was also acknowledged by its incorporation, along with the arts and sport, into a new Ministry for National Heritage. However, plans for an export agency were stalled, Lamont rejected the more wide-ranging proposals of the working party on tax reform, and the government also refused to pay the subscription to Eurimages (the Council of Europe's production and distribution support fund) without matching funding from private sources. This meant the UK was the only Western European country not a member by mid-1992 and the government was finally forced to relent and announce its application for membership in 1992.

Whether this half-hearted approach is sufficient to reverse the industry's fortunes is doubtful. Despite grandiose visions of Britain as a potential 'Hollywood of Europe', there are still insufficient incentives to attract either US or European film-makers to British studios and locations.<sup>5</sup> Likewise, in the absence of state support for film comparable to other European countries, British film-makers will continue to have difficulty attracting

European coproduction partners. As Shepherd and McCartney (1992: 17) explain: 'despite the willingness of UK producers to work with Europe, and the overwhelming desire of Europe to work with the UK, British producers generally find that they are simply unable to bring enough to the table because they cannot get finance from public sources or from television' (for an overview of the fiscal and subsidy mechanisms available in EC countries outside the UK, see Perilli, 1991).

The reference to television here is also significant. For whereas a number of European countries have formalized (sometimes through legislation, as in France) the relations between television and film, British television's support for film has been an unplanned — and possibly unexpected — consequence of government film and broadcasting policy. As such, the delicate ecology between film and television which evolved in the UK during the 1980s remains vulnerable, as recent developments have already highlighted. In 1988, the government altered the method of collecting the rrv levy (in effect a tax paid by the rrv companies for the right to broadcast). As the levy was now to be based on advertising revenues rather than profits, this had the effect of closing off a form of 'tax shelter' which had allowed rrv companies to write off up to 30 percent of their production costs, thus making the production of features became much less appealing. As a result, rrv involvement in feature production fell by one-third between 1989 and 1990. This decline in production was also related to the anxiety surrounding the allocation of television franchises, which were due to be announced in 1991 (and which did, indeed, result in two companies involved in film production — Thames and tvs — losing their licences). The now notorious system of competitive bidding used to decide the new franchise-holders, has also reduced the amount of money available for programme-making, and, given its high cost, feature production is likely to be less appealing. Disputes over the involvement of Granada Television (previously responsible for films such as *Strapless*, *The Fruit Machine* and *My Left Foot*) in film production were, for example, one of the factors which led to the resignation of Granada Chairman David Plowright in February 1992 (*Screen International*, 14 February 1992: 4).

These changes did not effect Channel Four directly. However, the decision that Channel Four should be responsible for selling its own advertising from 1993 onwards, will undoubtedly have an

impact upon its support for the British feature film. As has been argued, the channel's investment in film production has been 'protected' by the arrangements between the channel and the independent television companies, who guaranteed its income in return for the sale of advertising, and who in turn had been protected by the Treasury (who had originally agreed to offset any losses against existing levy payments). With the channel no longer guaranteed its income, and in competition with the other television companies for advertising (at a time when little growth in advertising revenue is expected) there will be pressure to reduce programme costs and the 'subsidy' traditionally allocated to film may not survive. Indeed, the indications already are that the budgets for Film on Four and drama, made by the Independent Film and Video Department, are under threat (Harvey, 1992; Saynor, 1992).

### Conclusion

A recent discussion of British government policy towards broadcasting suggests that it has failed to achieve either a coherent market-based system, or a clearly regulated practice of public service broadcasting (Prosser, 1992). A similar conclusion may also be drawn in relation to the government's policy towards film. It likewise failed to lay the foundations for a commercially successful film industry and, as with broadcasting policy, there has also been something of a retreat from full-blown market rhetoric. This has not, however, been sufficient to encourage the emergence of a publicly supported industry comparable to some other European countries. Therefore, if the continuing decline of British film production is to be reversed, the government will need to develop a more substantial and more formalized policy towards film, and its relations with television, than it has hitherto seen fit to provide.

### Notes

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1. Thus, in 1988, of the twenty films financed by Channel Four, 90 percent did not cover their costs when assessed according to conventional commercial criteria (*Guide of European Cinema*, 1989: 229).

2. Moreover, and contrary to the British government's belief, the US industry has also benefited from state support both at home and abroad. Thus, the restructuring of Hollywood, which occurred in the 1970s in the wake of financial crisis, was made possible by a government tax credit scheme (see Guback, 1987a).

3. Although, as Storper and Christopherson (1987) argue, a similar process of

vertical disintegration has occurred within the US film industry, it has not had the same consequences for production in so far as the US majors have continued to finance production which, due to their dominance of the world market, they can still do profitably.

4. One of the central problems of the Conservative's commitment to a market free of controls and restrictions, was that this did not necessarily increase competition but, as with film distribution and exhibition, served to reduce it. A similar contradiction was evident in the 'free market' policies of the Reagan administration in the US, whose lax enforcement of anti-trust legislation allowed the Hollywood majors to move back into exhibition (see Guback, 1987b).

5. The idea of Britain as the 'Hollywood of Europe' has been attributed to Lew Wasserman, the former head of Universal, and surprise participant in the Downing Street seminar of 1990 (Headland and Relph, 1991: 21). It is also generally believed that part of Margaret Thatcher's belated enthusiasm for the film industry was precisely this 'vision' of Britain as a European centre of film-making (see *Screen Finance*, 12 June 1991: 2). However, it is worth noting that this idea is not centrally concerned with the encouragement of indigenous British film-making, but the use of Britain as an attractive location — either by Americans wanting entry to the single European market, or by Europeans wishing to make films in English in order to gain access to the North American markets. Other visions of British film-making in Europe have emphasized the benefits of European coproduction (whether or not this involves a British location or the use of the English language) and the opportunities for British producers to make films aimed primarily at a European rather than North American market (see, for example, Gibson, 1992).

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